

AR14

1978  
**PanCanadian**

# PanCanadian Petroleum Limited

## Annual Report 1978

Canadian Pacific Oil and Gas Limited was incorporated in 1958, and in 1971 was amalgamated with Central-Del Rio Oils Limited forming PanCanadian Petroleum Limited, one of the largest Canadian controlled hydrocarbon producers. Canadian Pacific Investments Limited owns 87.1% of the 31,219,534 shares outstanding. PanCanadian employs more than 880 people, most of whom are located at the headquarters in One Palliser Square, Calgary.

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### ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held in the Penthouse of the Palliser Hotel, Calgary, Alberta at 10:00 a.m. Mountain Standard Time, on Thursday, April 5th, 1979. Notice of meeting, information circular and form of proxy are being mailed to each Shareholder with this report.



# Highlights

## FINANCIAL

1978

1977

(Dollar amounts in thousands except per share figures)

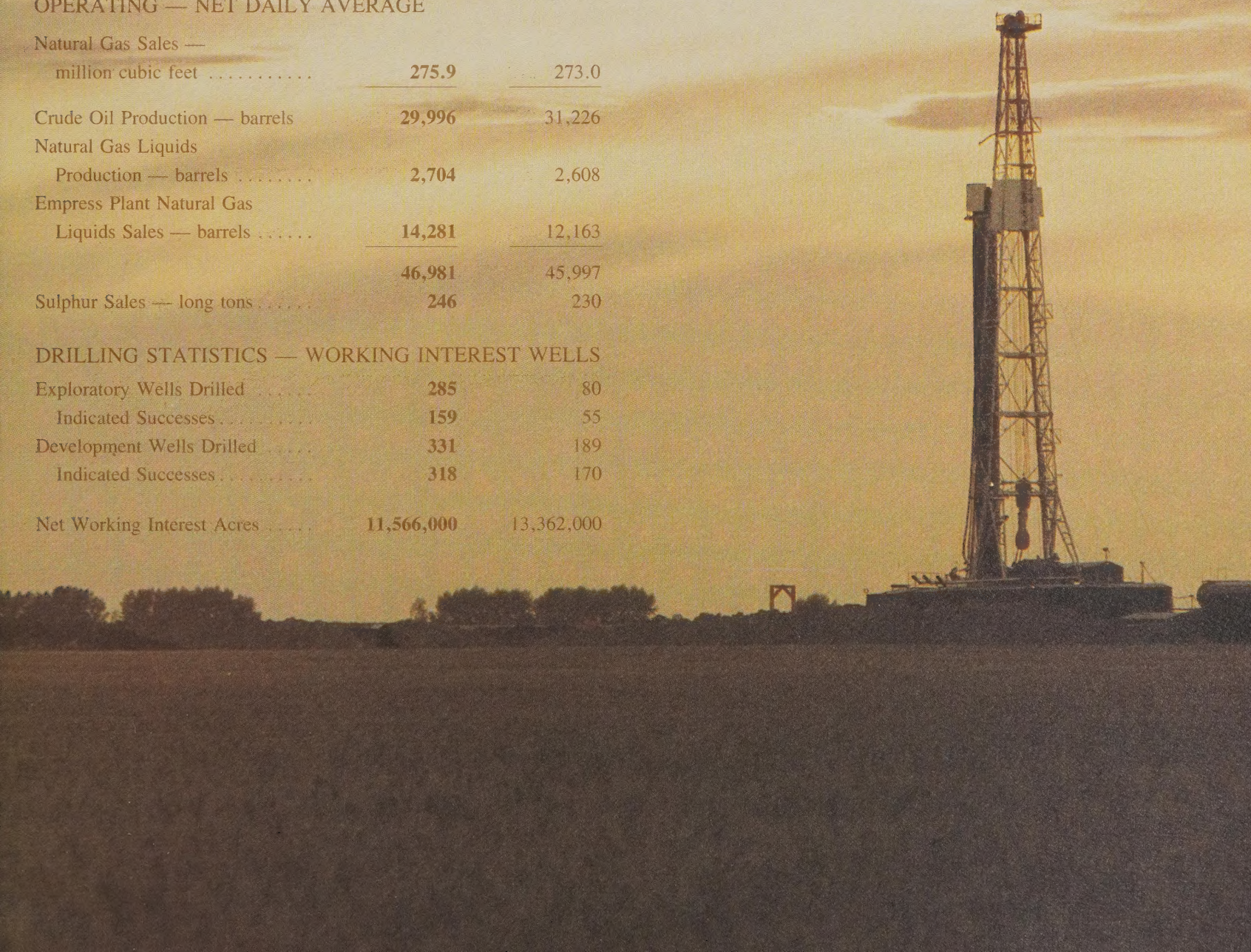
Gross Income .....	\$333,762	\$301,346
Funds from Operations .....	223,260	186,096
Per Share .....	7.15	5.96
Net Income .....	143,456	126,546
Per Share .....	4.60	4.05
Dividends .....	35,583	29,653
Per Share .....	1.14	0.95
Capital Expenditures .....	339,781	110,030
Long-Term Debt		
at end of year .....	271,855	119,632
Working Capital		
at end of year .....	61,856	57,816

## OPERATING — NET DAILY AVERAGE

Natural Gas Sales —		
million cubic feet .....	275.9	273.0
Crude Oil Production — barrels	29,996	31,226
Natural Gas Liquids		
Production — barrels .....	2,704	2,608
Empress Plant Natural Gas		
Liquids Sales — barrels .....	14,281	12,163
	46,981	45,997
Sulphur Sales — long tons .....	246	230

## DRILLING STATISTICS — WORKING INTEREST WELLS

Exploratory Wells Drilled .....	285	80
Indicated Successes .....	159	55
Development Wells Drilled .....	331	189
Indicated Successes .....	318	170
Net Working Interest Acres .....	11,566,000	13,362,000









# Corporate

## DIRECTORS

† *ALEX G. BAILEY Calgary, Alberta	— Director of Conventures Limited
*ROBERT W. CAMPBELL Calgary, Alberta	— Chairman of the Board and Chief Executive Officer of PanCanadian Petroleum Limited, Director of Canadian Pacific Investments Limited and Cominco Ltd.
ALBERT D. COHEN Winnipeg, Manitoba	— President of General Distributors of Canada Ltd.
JOCK K. FINLAYSON Montreal, Quebec	— Vice Chairman of The Royal Bank of Canada
† HUGH A. MARTIN Vancouver, B.C.	— President of Western Construction & Engineering Research Ltd.
WILLIAM MOODIE Montreal, Quebec	— President of Canadian Pacific Investments Limited
† *H. M. PICKARD Calgary, Alberta	— Barrister and Solicitor
† JOHN C. ROSS Lethbridge, Alberta	— President of the Milk River Cattle Company Limited
IAN D. SINCLAIR, Q.C. Montreal, Quebec	— Chairman and Chief Executive Officer of Canadian Pacific Limited
W. J. STENASON Montreal, Quebec	— Executive Vice President of Canadian Pacific Investments Limited
*J. M. TAYLOR Calgary, Alberta	— President of PanCanadian Petroleum Limited, and Director and Chairman of the Board of Panarctic Oils Ltd.
† MARSHALL M. WILLIAMS Calgary, Alberta	— President of Calgary Power Ltd.

\*Member of Executive Committee

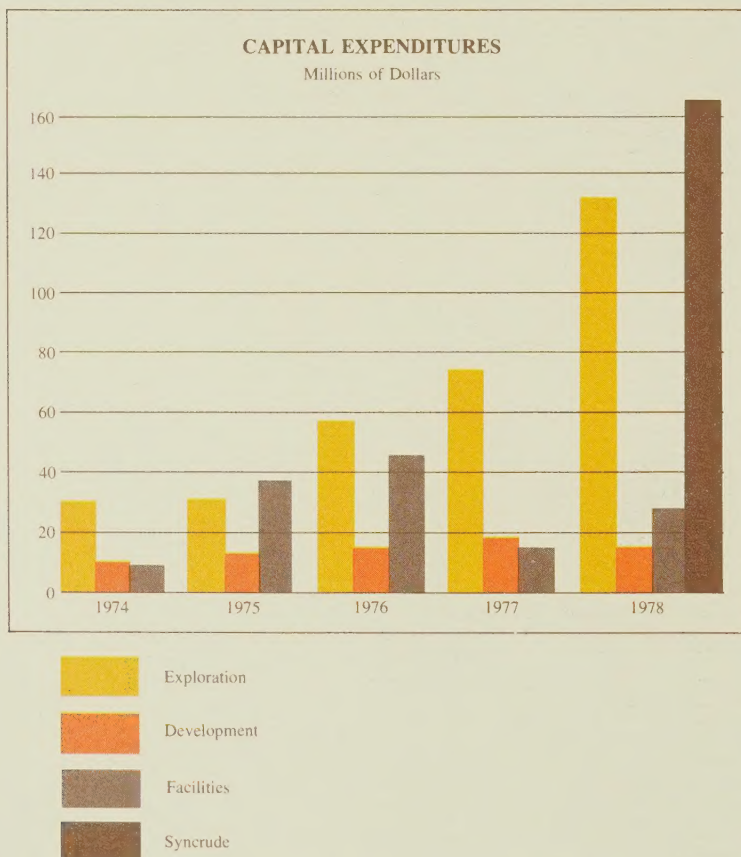
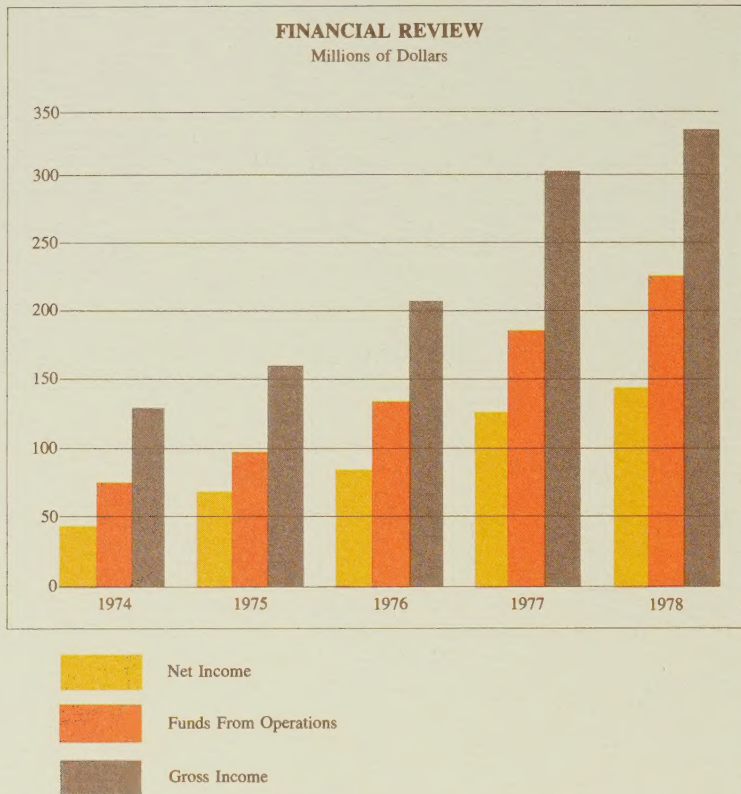
†Member of Audit Committee

## OFFICERS

ROBERT W. CAMPBELL <i>Chairman of the Board and Chief Executive Officer</i>	C. R. V. THOMSON <i>Vice President — Exploration</i>
J. M. TAYLOR <i>President</i>	K. B. CUSWORTH <i>Vice President — Corporate Research</i>
BARTLETT B. ROMBOUGH <i>Executive Vice President</i>	K. A. WURZER <i>Treasurer</i>
IAN D. SINCLAIR, Q.C. <i>Vice President</i>	D. N. MAXWELL <i>Comptroller</i>
C. H. STEVENS <i>Senior Vice President — Administration</i>	V. B. WATSON <i>Assistant Treasurer</i>
R. C. VERNER <i>Senior Vice President — Operations</i>	GEORGE E. LITTLE <i>Corporate Secretary</i>
A. W. GROLL <i>Vice President — Production</i>	C. MILLAR <i>Assistant Secretary</i>



## To The Shareholders



On behalf of the Board of Directors of PanCanadian Petroleum Limited, we are pleased to report that your Company experienced another successful year in 1978. Net income rose to \$143.5 million or \$4.60 a share, a 13% increase. Funds generated from operations were \$223.3 million or \$7.15 a share. Dividends increased to \$1.14 a share. Higher prices for oil and natural gas were a major contributor to your Company's improved performance.

Capital expenditures in 1978, including the Company's investment in the Syncrude project and Panarctic Oils Ltd., reached a record high of \$341.3 million compared with \$113.0 million in 1977. Exploration expenditures totalled \$133.4 million, an increase of \$55.7 million from 1977. Expenditures for development drilling, facilities and equipment were \$44.9 million, compared to \$35.4 million the previous year.

PanCanadian's net gas sales averaged 275.9 million cubic feet a day, compared to 273.0 million cubic feet a day in 1977. Although gas sales showed an increase during the early part of 1978, this was offset later in the year by lower nominations by purchasers, as their projected demand for contracted production did not materialize. Net crude oil production averaged 29,996 barrels a day compared to 31,226 barrels a day in 1977.

Lack of additional markets for natural gas and encouraging oil discoveries caused greater exploration emphasis on programs focusing on oil prospects. Your Company increased its exploration program significantly in 1978, expending record amounts, particularly in intensely competitive areas such as Elmworth and West Pembina. The Company's participation in two encouraging oil discoveries at Elmworth in the second half of the year bolsters confidence in the emphasis placed on the search for oil and its continuation in 1979.

Late in the year, your Company purchased a 5% interest in the Syncrude project at a cost of \$160 million. This important acquisition significantly increases PanCanadian's oil reserves. It will provide a constant source of oil production on a long-term basis and alleviate declines from presently producing reservoirs. Until September 1, 1979, the acquisition is subject to an option by another company, which, if exercised to the maximum extent, will reduce your Company's interest to a net 4%, resulting in a cash payment to PanCanadian of approximately \$27 million.

The Syncrude project is designed to produce 129,400 barrels a day of synthetic crude oil at full



capacity, by mining the bituminous tar sands of the Athabasca area near Fort McMurray, Alberta. Initial production commenced in mid-1978 and by year-end 3.6 million barrels had been produced. While the plant has been subject to start-up problems normal to such projects, it is anticipated that production will escalate in 1979, reaching full capacity by 1983. Unlike conventional oil fields which experience continuous decline after reaching maximum output, the Syncrude project will continue to produce without decline throughout the life of the permit. Indeed, the underlying reserves are sufficient to expand the present committed capacity.

PanCanadian's crude oil production is not expected to be restrained in 1979 by market conditions. This is the result of the National Energy Board's decision announced late last year, following its 1978 inquiry into oil supply and demand at which your Company played an active role. As a result of the Board's recommendation for greater use of Canadian oil in Montreal, the capacity of the Sarnia to Montreal pipeline has been substantially expanded. The Board has also recommended continued export of heavy crude, surplus to Canadian requirements, to United States Northern Tier markets.

As a result of the vigorous exploration activity by the petroleum industry during the last several years, substantial new natural gas reserves have been found. This, combined with a sharp reduction in the annual growth of domestic requirements, has caused a significant surplus of natural gas. The National Energy Board conducted an extensive hearing into all facets of this situation during the fall of 1978, in which your Company participated. Industry has recommended that a portion of the surplus be authorized for short-term exports to the United States, and that further domestic market expansion be encouraged wherever advantageous. Your Company fully supports this position. A timely and favourable decision is important in order to ensure access to present potential markets for Canadian natural gas, and thus maintain exploration activity at the present high levels. The current Iranian crisis, and its possible ramifications, clearly underlines the need for even greater exploration endeavours to provide secure energy supplies.

PanCanadian recognizes the possibility of expanded domestic use of natural gas into markets developed for reasons other than economics. In such event, your Company recommends that the burden of any form of subsidization should be shared fairly by all

gas producers, gas transmission and utility companies, as well as both levels of government.

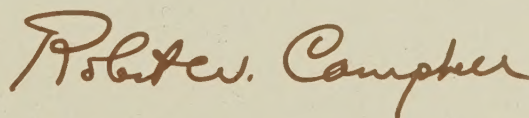
In an effort to stimulate natural gas markets, your Company joined with a number of other producers and formed Progas Limited. Progas plans to serve new markets, both domestic and export, with the initial sales being directed to export markets over the first five years and thereafter being progressively dedicated to the Canadian market. Application for an export permit to effect this has been submitted to the National Energy Board.

Late in 1978 and early in 1979, two applications to transport Arctic Islands gas were filed with the National Energy Board by Polar Gas and the Arctic Islands LNG Project, respectively. Both these applications propose to connect gas, owned by Panarctic Oils and others, to market.

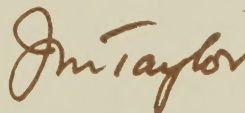
In December 1978, Mr. Richard C. Verner was appointed Senior Vice President — Operations. Mr. Verner is responsible for directing and coordinating exploration and production activities, and brings twenty years experience in the oil industry to your Company.

As of January 1, 1979, PanCanadian adopted SI measurements (the standardized metric system) in accordance with national policy. In this report, overall totals are converted to SI using the conversion factors shown on page 17.

On behalf of the Board of Directors, we wish to record our appreciation for the continued support of the staff during 1978.



Robert W. Campbell  
Chairman of the Board and  
Chief Executive Officer



J. M. Taylor  
President

Calgary, Alberta  
March 7, 1979



# Exploration





As in past years, your Company was active at Crown land sales in the Western Provinces, investing \$24.0 million in the acquisition of interests in 443,000 gross acres. This expenditure was concentrated in several highly potential areas of Alberta and British Columbia.

The Elmworth area in the Deep Basin of Alberta continues to be one of vigorous industry exploration activity. At Crown land sales, your Company spent \$4.1 million to acquire interests in 46,000 gross acres, bringing holdings in this area to 122,000 gross acres. Exploratory drilling resulted in two oil discoveries — Total PCP Hythe 10-30-73-9 W6 and Total PCP Knopcik 10-15-74-10 W6 — and one potential gas well. The oil discoveries provide further encouragement for exploration in this known gas area.

The West Pembina Nisku oil play, the scene of intense industry activity in late 1977, continued as one of your Company's main focal points for oil exploration. At Crown land sales in this area, interests in 94,500 gross acres were acquired during 1978 for an expenditure of \$9.9 million. PanCanadian's holdings in the West Pembina area now total 200,000 gross acres. Participation in eight wells resulted in three oil and three gas wells, however only one of the discoveries encountered oil in the Nisku formation — the prime objective in the area. This well, PCP Canso et al BrazR 10-25-48-13 W5, has now commenced production.

In the Northern Plains and Foothills areas of Alberta, \$3.8 million was spent at Crown land sales to acquire interests in 64,500 gross acres. Exploration in

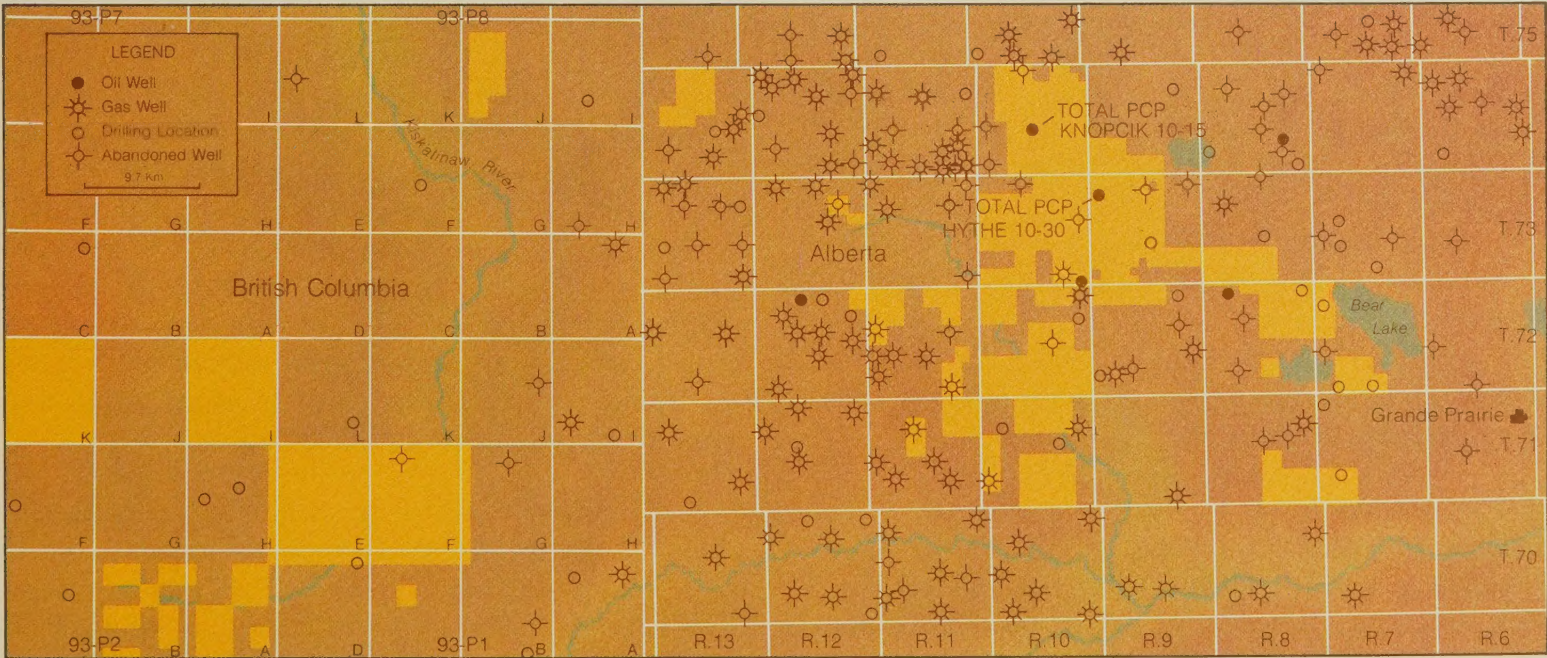
these areas was concentrated near Pouce Coupe, where your Company participated in six exploratory wells. Three gas discoveries were made, which will be evaluated in 1979, and an oil well was drilled. Elsewhere, exploration programs are continuing at Narraway, Findley and Berland River.

PanCanadian continued its aggressive exploration program in Southern and Central Alberta during the year. At Crown land sales, interests in 35,000 gross acres were acquired for \$1.6 million. In the Hammerhill area, a relatively unexplored region of Southern Alberta, an encouraging oil discovery and a dual-zone gas discovery were made. Exploratory drilling in the Countess-Lathom oil-producing trend resulted in one oil and two gas wells. Your Company also participated in an oil discovery in the Alderson West area, and new gas reserves were found at Countess-Makepeace. Four exploratory gas wells were drilled in the Crowfoot area, and one well encountered oil. At Long Coulee, four gas wells were drilled.

In the Tatagwa area of Saskatchewan, two exploratory Midale oil wells were drilled and placed on production. An interest in a 35,000 acre parcel in this area was acquired at a Crown land sale for \$130,000. A wildcat was drilled and abandoned in Manitoba.

PanCanadian's exploration program in British Columbia has been gaining momentum over the past few years. At Crown land sales, \$4.5 million was invested to acquire interests in 168,000 gross acres. A broad geophysical program was conducted, and participation in eight exploratory wells yielded one oil and five gas

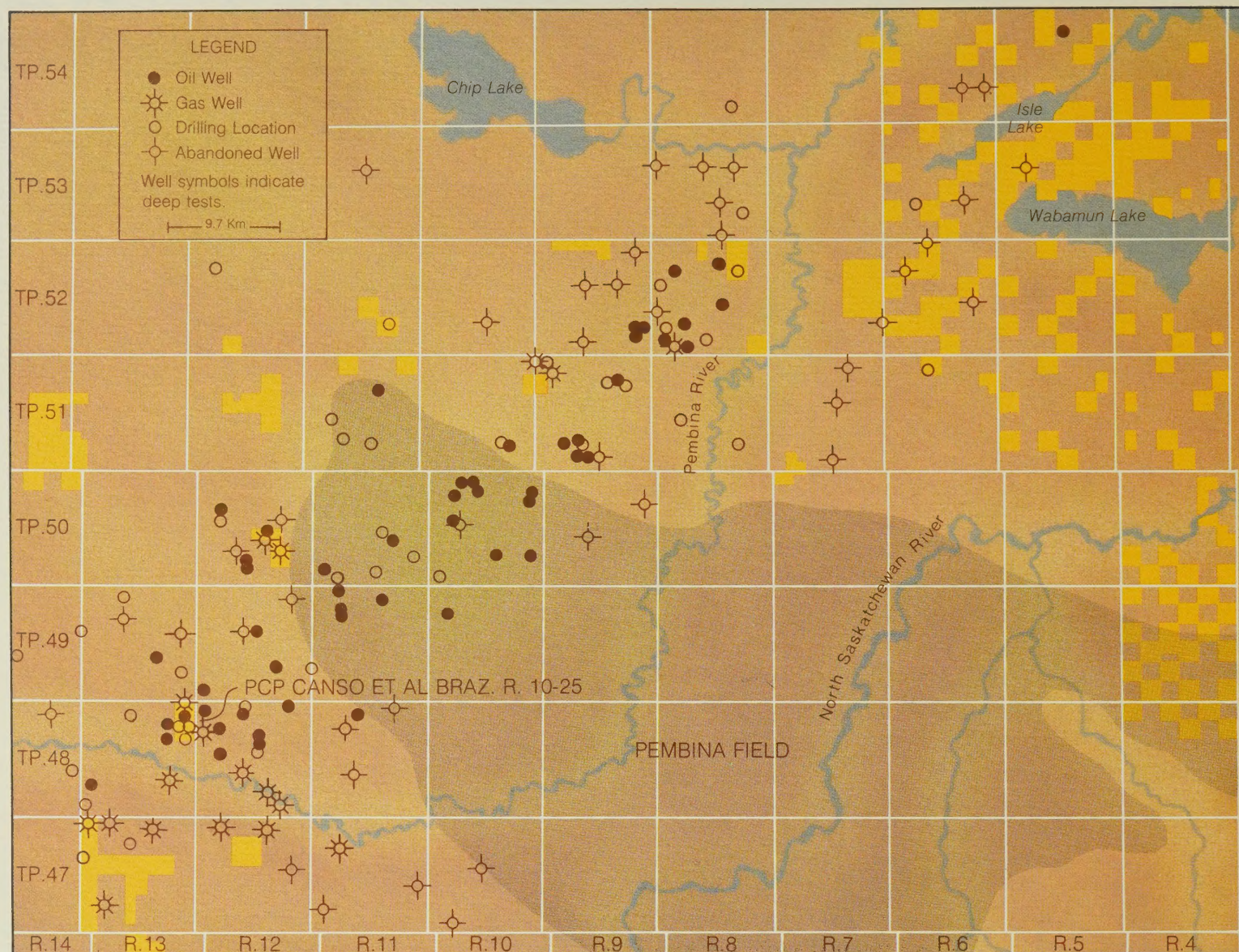
ELMWORTH AREA



Drilling at PCP Total Hythe 10-2-73-10 W6



## WEST PEMBINA AREA



wells. Of these, a gas well in the Klua area, drilled as a follow-up to a previous discovery, was placed on stream late in 1978, along with the discovery well.

In the United States, a 10% interest in 17,000 gross acres in the Georgia Embayment offshore the East Coast was acquired during the year, as well as a 50% interest in 723,000 gross acres in North Dakota, Montana and Utah. Other acquisitions include a 50% interest in 115,000 gross acres in West Texas, a 75% interest in 133,000 gross acres in Nebraska and Kansas, and a 100% interest in 107,000 acres in Nevada. In addition, a seismic option was negotiated covering 500,000 acres in the Pedregosa Basin of New Mexico.

PanCanadian has a 17% working interest in a gas discovery drilled offshore Texas during 1978 on High Island Block A-367. Offshore Louisiana, two wildcats drilled on Eugene Island Block 43, in which the Company has a 25% interest, resulted in a gas-condensate discovery, and a producing facility is being designed.

Your Company participated in two wildcats off California and one in the Baltimore Canyon offshore the East Coast, which were abandoned.

Onshore in the United States, two oil discoveries were drilled and placed on production during the year — one in St. James Parish, Louisiana and the other in Prowers County, Colorado. PanCanadian holds interests of 25% and 27% in the wells, respectively. In Solano County, California, your Company has a 25% interest in 4,500 gross acres where a gas-condensate discovery was drilled. On a short flow test, eight million and five million cubic feet of gas a day, from separate zones, were recorded and exploratory drilling is continuing.

A substantial seismic program was undertaken during 1978 off the northwest coast of Australia, on an eight million acre block in which PanCanadian holds a 20% interest. Following interpretation of the results of this program, it is proposed to commence the drilling of a well in mid-1979.



PanCanadian is a 33<sup>1</sup>/<sub>3</sub>% participant in a group which has made application to the U.K. Government for a production licence in the North Sea, at the Sixth Round of bidding. Awards are expected to be announced early in 1979. Elsewhere in the U.K. North Sea on a block in which your Company held a 9% interest, an earning well was drilled and abandoned at no cost to your Company. In the Dutch North Sea, a well in which your Company has a 5% interest was abandoned as a dry hole in 1978. Two concessions offshore Greenland were surrendered during the year, following evaluation of drilling and seismic operations.

On lands in which PanCanadian has an interest, a record of 1205 wells were drilled during 1978. Of the total, 413 were exploratory and 792 were development wells.

PanCanadian's working interest land holdings at year-end totalled 11.6 million net acres, of which 8.6 million acres were located in Canada. Royalty interests were held in a further 3.8 million acres. Total acreage holdings show a reduction of approximately 2.1 million net acres from 1977 due to term expiry of Indonesian

acreage, and surrenders of non-prospective acreage in Greenland and the Northwest Territories.

PanCanadian continued its coal exploration and drilled 65,000 feet of test holes in Southern and Central Alberta. Estimates of recoverable proven and probable subbituminous reserves increased from 1490 (1352 10<sup>6</sup>t) to 1748 million short tons (1586 10<sup>6</sup>t). Of this, surface and underground recoverable reserves are 924 and 824 million tons, respectively.

### Panarctic Oils Ltd.

During 1978, Panarctic drilled seven wells in the Canadian Arctic, and three additional wells were underway at year-end. PanCanadian held an 8.59% interest in Panarctic Oils Ltd. as of December 31, 1978.

## UNITED STATES





**WORKING INTEREST HOLDINGS IN  
PETROLEUM AND NATURAL GAS RIGHTS**

	At December 31, 1978		At December 31, 1977	
	Gross Acres	Net Acres	Gross Acres	Net Acres
<b>CANADA</b>				
Alberta .....	8,091,053	6,298,972	8,346,842	6,412,371
Arctic Islands* .....	945,002	105,041	994,028	109,343
British Columbia .....	765,480	356,506	792,971	378,906
Manitoba .....	279,524	263,063	269,345	269,345
New Brunswick .....	178,050	48,958	178,050	49,958
N.W.T. & Yukon .....	906,145	800,315	2,383,066	1,548,287
Quebec .....	208,770	28,601	1,053,076	129,217
Saskatchewan .....	705,994	656,087	687,274	663,934
	<u>12,080,018</u>	<u>8,557,543</u>	<u>14,704,652</u>	<u>9,561,361</u>
UNITED STATES .....	<u>2,878,235</u>	<u>1,399,390</u>	<u>1,546,113</u>	<u>628,339</u>
<b>INTERNATIONAL</b>				
Australia .....	8,000,000	1,600,000	8,000,000	1,600,000
Greenland .....	—	—	779,369	233,288
Indonesia .....	—	—	3,511,115	1,316,668
North Sea (Dutch) .....	103,537	5,177	207,503	10,375
North Sea (U.K.) .....	87,500	3,938	156,430	12,387
	<u>8,191,037</u>	<u>1,609,115</u>	<u>12,654,417</u>	<u>3,172,718</u>
<b>TOTAL</b> .....	<u>23,149,290</u>	<u>11,566,048</u>	<u>28,905,182</u>	<u>13,362,418</u>
SI Units (hectares) .....	<u>9 368 194</u>	<u>4 680 618</u>	<u>11 697 522</u>	<u>5 407 583</u>
Non-working interest acreage under lease or sublease, reserving to PanCanadian, or its subsidiaries, royalties or overriding royalties .....	—	3,792,960	—	4,140,031
SI Units (hectares) .....	—	1 534 958	—	1 675 413

\*Does not include PanCanadian's interest in Panarctic Oils Ltd.

**DRILLING STATISTICS**

	1978					1977	
	Oil	Gas	Abandoned	Facility	Total	Footage	Total
<b>CANADA</b>							
<b>Exploratory</b>							
Working Interest .....	24	121	72	1	218	1,081,518	71
Royalty Interest .....	21	66	38	—	125	494,673	75
<b>Development</b>							
Working Interest .....	31	283	9	2	325	790,374	184
Royalty Interest .....	58	380	23	—	461	985,100	404
	<u>134</u>	<u>850</u>	<u>142</u>	<u>3</u>	<u>1,129</u>	<u>3,351,665</u>	<u>734</u>
<b>UNITED STATES</b>							
<b>Exploratory</b>							
Working Interest .....	4	10	50	—	64	624,272	7
Royalty Interest .....	1	1	1	—	3	21,382	3
<b>Development</b>							
Working Interest .....	2	2	2	—	6	51,151	5
Royalty Interest .....	—	—	—	—	—	—	2
	<u>7</u>	<u>13</u>	<u>53</u>	<u>—</u>	<u>73</u>	<u>696,805</u>	<u>17</u>
<b>INTERNATIONAL</b>							
<b>Exploratory</b>							
Working Interest .....	—	—	3	—	3	33,869	2
<b>TOTAL</b> .....	<u>141</u>	<u>863</u>	<u>198</u>	<u>3</u>	<u>1,205</u>	<u>4,082,339</u>	<u>753</u>
SI Units (metres) .....						<u>1 244 297</u>	<u>734 432</u>



WESTERN CANADA





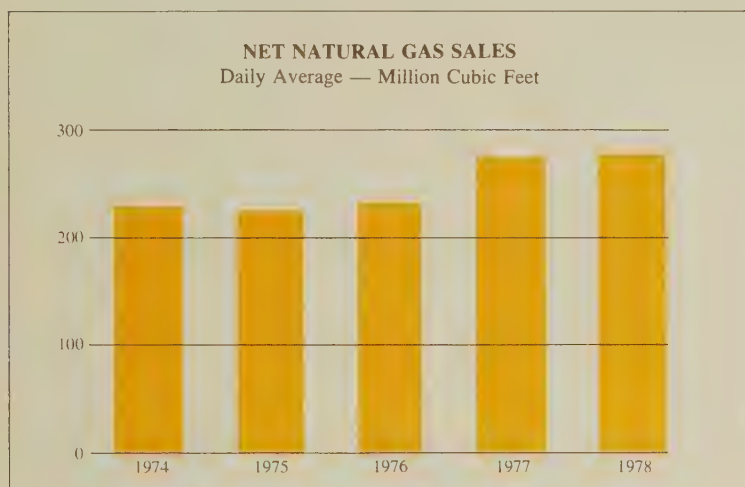
# Production





## Natural Gas

PanCanadian's net gas sales averaged 275.9 million cubic feet a day ( $7.77 \times 10^6 \text{ m}^3$ ) compared to 273.0 million cubic feet a day ( $7.69 \times 10^6 \text{ m}^3$ ) in 1977. The average price received for natural gas was \$1.45 a thousand cubic feet compared with \$1.26 in 1977. Domestic price increases of 17¢ and 15¢ a thousand cubic feet at the Toronto City Gate were effective February 1 and August 1, 1978, respectively. However, from the total increase of 32¢, 14¢ were taken up in increased transmission charges.



NET NATURAL GAS SALES		
Daily Average — Million Cubic Feet	1978	1977
Alberta .....	269.8	265.8
Saskatchewan .....	0.4	—
British Columbia .....	2.8	3.1
	273.0	268.9
United States .....	2.9	4.1
	275.9	273.0

The inability of gas purchasers to take even minimum contract volumes during 1978 resulted in cut backs in natural gas production throughout the year. As a result, anticipated gains in sales were not realized and the Company experienced shut-in production capacity. Failure to take these minimum quantities triggered the "take or pay" provisions of gas purchase contracts, thus requiring the purchasers to pay for gas which will not be delivered until some time in the future. As a result, payment for 5.2 billion cubic feet was received in 1978.

Development activities continued during the year to meet contract requirements. Eight compressor stations were enlarged and 95 additional wells were connected in the Alderson, Cassils, Lake Newell, Redland, Strathmore, Tide Lake and Verger areas. An infill drilling program of 75 wells, as well as installation of

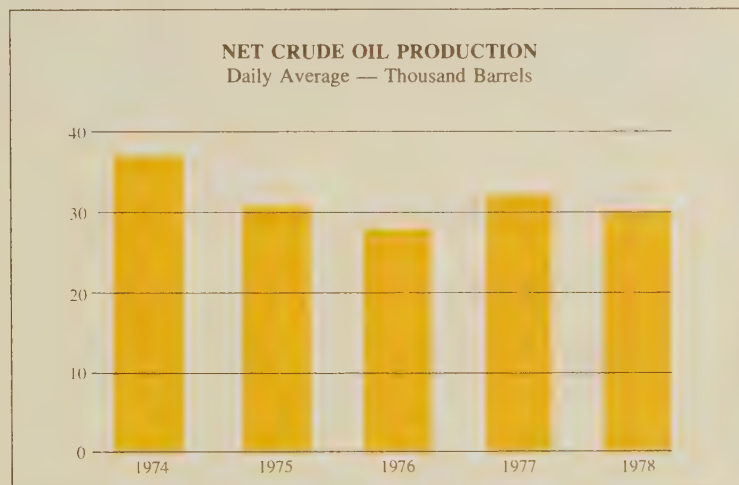
1,300 horsepower of additional compression, was commenced in 1978 in the Alderson field and is scheduled for completion by the end of 1979. Another development project is progressing in the West Jumping Pound field, where five wells were tied-in and another well is planned for 1979. Additional compression of 9,000 horsepower will be operational by the end of 1979.

Construction of a ten million cubic feet a day sour gas plant in the Morley area, west of Calgary, is scheduled to commence in 1979. Your Company will operate this plant which is expected to be on stream by the end of the year, with average gross gas sales under an existing contract of approximately seven million cubic feet and production of 18 long tons of sulphur a day.

Your Company has a 5% interest in an offshore platform which is being designed to produce gas from Blocks A-368 and A-351 in the High Island area offshore Texas. Production is expected to commence in late 1980.

## Crude Oil

Net crude oil production averaged 29,996 barrels a day ( $4767 \text{ m}^3$ ), compared to 31,226 barrels ( $4962 \text{ m}^3$ ) in 1977. The average price realized by your Company for crude oil was \$11.42 a barrel, compared to \$9.50 the previous year. Two price increases of \$1.00 each were implemented for Canadian crude oil on January 1 and July 1, 1978. A further price increase of \$1.00 has been announced for July 1, 1979.



NET CRUDE OIL PRODUCTION		
Daily Average — Barrels	1978	1977
Alberta .....	26,489	27,610
Saskatchewan .....	3,028	3,191
Manitoba .....	64	65
British Columbia .....	18	12
	29,599	30,878
United States .....	397	348
	29,996	31,226



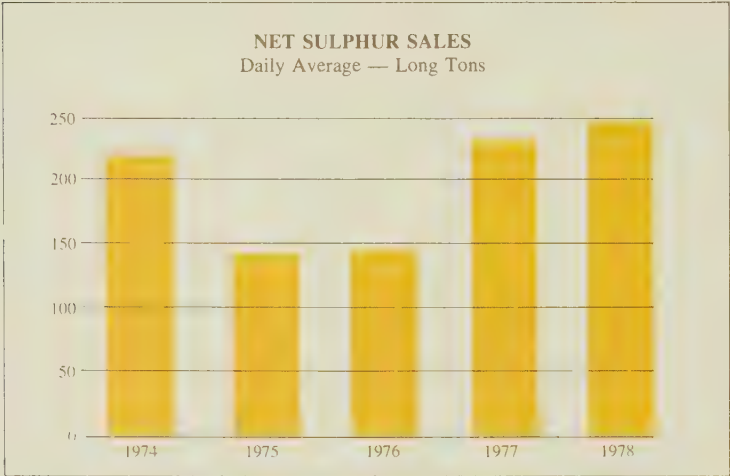
Operational problems were experienced in the Countess-Lathom area, mainly in the water injection system, as well as an increase in the hydrogen sulphide content of the associated gas production. Remedial work on the injection system and an increase in injection capacity from 26,000 to 50,000 barrels a day, to accommodate oil production from newly drilled wells, are near completion. Sweetening facilities are being designed to handle the sour gas and are expected to be operational by the end of 1979.

A water flood scheme is near completion in the Parflesh field of Alberta. As a result, oil production from this field is expected to increase by approximately 400 barrels a day in the second half of 1979. New production commenced in December and January from two wells in the Tatagwa area of Saskatchewan and one new discovery in the Hammerhill area of Alberta.

The experimental pilot project at Marguerite Lake commenced production during the third quarter of 1978. PanCanadian has a 12½% interest in this project for the “in situ” production of non-conventional oil in the Cold Lake area of Alberta.

Sulphur

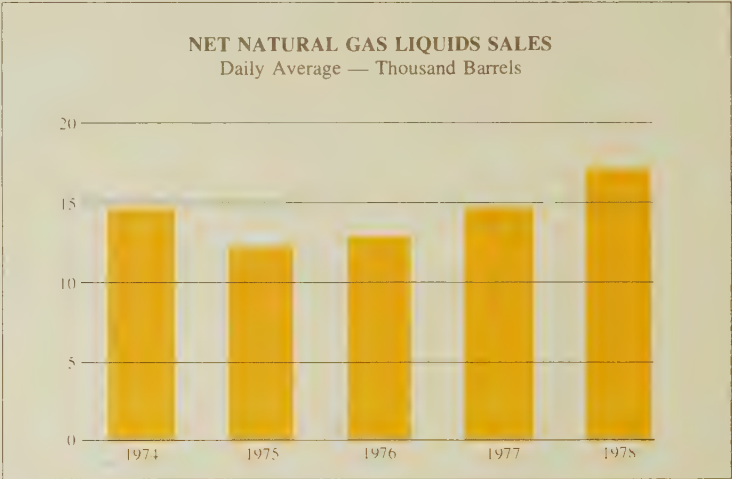
Sales volume averaged 246 long tons (250 t) a day compared with 230 long tons (234 t) a day the previous year. At year-end inventories amounted to 253,000 long tons (257 000 t).



NET SULPHUR SALES		
Daily Average — Long Tons		
	1978	1977
Alberta .....	242	228
United States .....	4	2
	246	230

Natural Gas Liquids

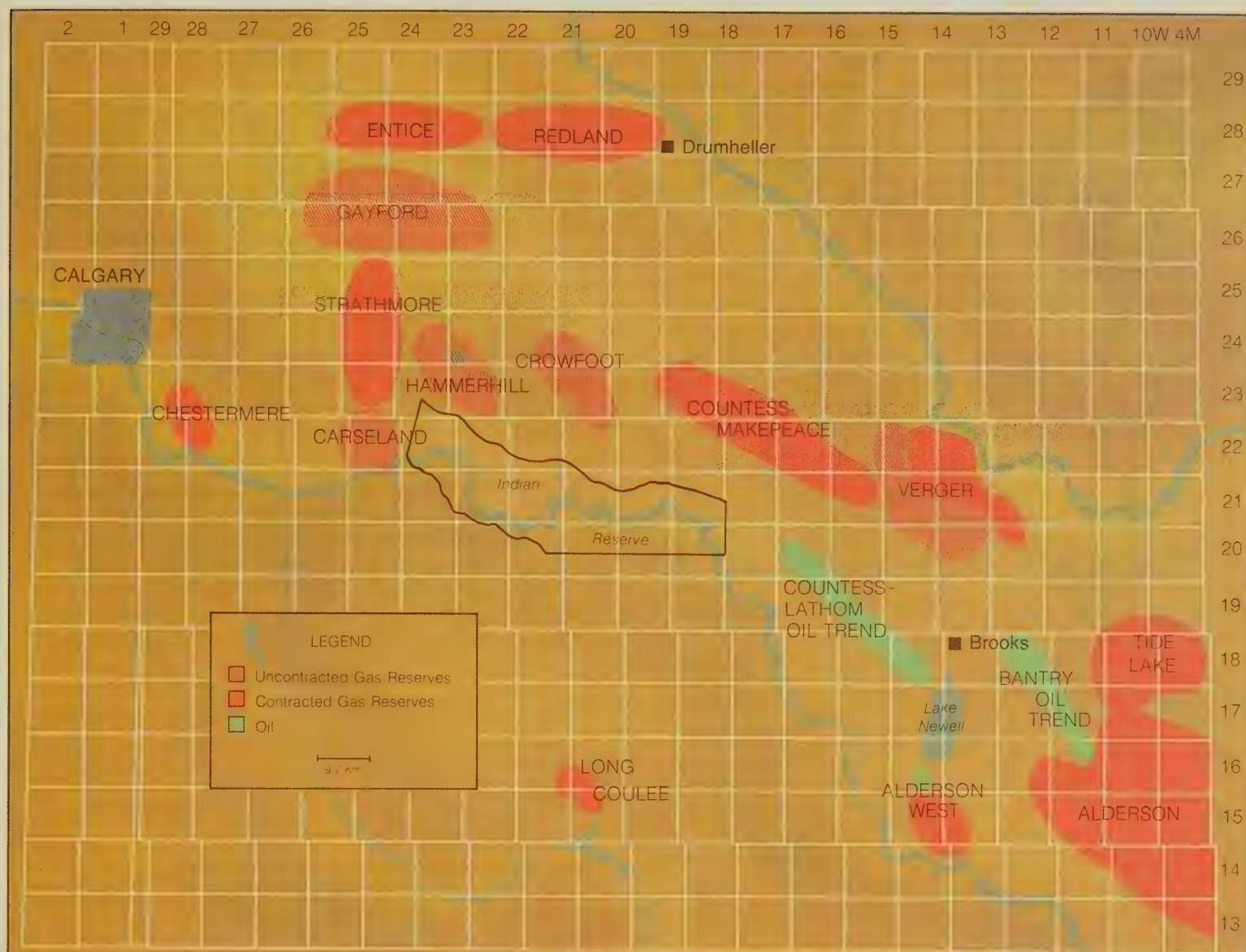
Total sales of liquids from the Empress plants increased to 14,281 barrels a day from 12,163 barrels. Sales of liquids extracted from Company-produced natural gas increased from 2,608 barrels a day to 2,704 barrels. At Empress, production of propane, butane and condensate declined by 25% as the natural gas stream became leaner in liquid content. Sales of ethane, however, more than doubled, thus raising total sales over 1977 levels.



NET NATURAL GAS LIQUIDS SALES		
Daily Average — Barrels		
	1978	1977
EMPRESS PLANT		
Ethane .....	7,534	3,214
Propane .....	3,956	5,220
Normal Butane .....	1,172	1,411
Iso Butane .....	679	940
Condensate .....	940	1,378
	14,281	12,163
OTHER PLANT LIQUIDS		
Royalty Interest .....	1,596	1,659
Working Interest .....	1,108	949
	2,704	2,608
	16,985	14,771



# Reserves



## SOUTH EASTERN ALBERTA

The Company's remaining proven and probable reserves at December 31, 1978, as estimated by the Company's engineers, are shown in the accompanying tables.

The remaining proven and probable natural gas reserves were higher than the previous year by 261 billion cubic feet, and provide a constant rate reserves life index of 26 years. Exploration and development drilling — mainly in Alderson, Countess, Strathmore, Hussar, Crowfoot, Long Coulee and Klua — added 224 billion cubic feet, while engineering reviews added 148 billion cubic feet. This was reduced by production of 111 billion cubic feet.

The remaining proven and probable crude oil and natural gas liquids reserves were lower than the previous year by 9.6 million barrels, and provide a constant rate

reserves life index of 12 years. Exploration and development drilling — mainly in Alderson West, Countess, Horsefly, Tatagwa, Nevis West and Thompson Lake — added 3.4 million barrels, while engineering reviews added 0.3 million barrels. This was offset by production of 13.3 million barrels.

The acquisition of an interest in the Syncrude project added 57 million barrels of synthetic crude oil to your Company's reserves, based upon the present term of the Provincial Government permit.

The remaining proven and probable sulphur reserves declined from the previous year by 795 thousand long tons. This reduction reflects the production of 88 thousand long tons and engineering reviews of 707 thousand long tons.



# TOTAL RESERVES\*

	1978	1977
<b>Marketable Natural Gas</b> (billion cubic feet)		
Remaining Reserves at January 1 .....	2,676**	2,821
Reserves added .....	372	214
	3,048	3,035
Production .....	111	112
Remaining Reserves at Dec. 31 (before Royalty) .....	2,937	2,923
Royalty Deductions .....	254	475
Remaining Reserves at Dec. 31 (after Royalty) .....	2,683	2,448
SI Units (10 <sup>9</sup> m <sup>3</sup> ) .....	75.59	68.97
<b>Oil and Natural Gas Liquids</b> (thousand barrels)		
Remaining Reserves at January 1 .....	173,729**	188,394
Reserves added .....	3,714	1,069
	177,443	189,463
<b>Production</b> .....	13,316	13,893
Remaining Reserves at Dec. 31 (before Royalty) .....	164,127	175,570
Royalty Deductions .....	17,791	22,607
Remaining Reserves at Dec. 31 (after Royalty) .....	146,336	152,963
SI Units (10 <sup>3</sup> m <sup>3</sup> ) .....	23 254	24 307
<b>Synthetic Oil</b> (thousand barrels)		
Reserves at Dec. 31 .....	57,000	
SI Units (10 <sup>3</sup> m <sup>3</sup> ) .....	9 058	
<b>***Sulphur</b> (thousand long tons)		
Remaining Reserves at January 1 .....	3,822**	6,510
Reserves added (subtracted) .....	(707)	(500)
	3,115	6,010
Production .....	88	139
Remaining Reserves at Dec. 31 (before Royalty) .....	3,027	5,871
Royalty Deductions .....	37	2,435
Remaining Reserves at Dec. 31 (after Royalty) .....	2,990	3,436
SI Units (10 <sup>3</sup> t) .....	3 038	3 491
<b>Coal</b> (million short tons)		
Remaining Reserves at January 1 .....	1,495	864
Reserves added .....	259	631
Remaining Reserves at Dec. 31 (before Royalty) .....	1,754	1,495
Royalty Deductions .....	6	5
Remaining Reserves at Dec. 31 (after Royalty) .....	1,748	1,490
SI Units (10 <sup>6</sup> t) .....	1 586	1 352

\*Does not include PanCanadian's interest in Panarctic Oils Ltd. and Minerals Ltd., and is the total of proven and probable reserves.

\*\*The January 1, 1978 "before royalty" reserves have been adjusted to reflect a correction to the conversion from net to gross reserves in 1977. The "after royalty" reserves are unaffected.

\*\*\*Does not include sulphur from the Syncrude project.



**\*PROVEN AND PROBABLE RESERVES AT DECEMBER 31, 1978**

	<u>Proven</u>	<u>Probable</u>	<u>Total</u>	<u>Total (SI)</u>
Marketable Natural Gas (billion cubic feet)				
Before Royalty .....	2,302	635	2,937	82.75 10 <sup>9</sup> m <sup>3</sup>
After Royalty .....	2,108	575	2,683	75.59 10 <sup>9</sup> m <sup>3</sup>
Oil and Natural Gas Liquids (thousand barrels)				
Before Royalty .....	127,862	36,265	164,127	26 081 10 <sup>3</sup> m <sup>3</sup>
After Royalty .....	111,693	34,643	146,336	23 254 10 <sup>3</sup> m <sup>3</sup>
Sulphur (thousand long tons)				
Before Royalty .....	2,318	709	3,027	3 076 10 <sup>3</sup> t
After Royalty .....	2,287	703	2,990	3 038 10 <sup>3</sup> t
Coal (million short tons)				
Before Royalty .....	908	846	1,754	1 591 10 <sup>6</sup> t
After Royalty .....	904	844	1,748	1 586 10 <sup>6</sup> t
Synthetic Oil (thousand barrels)				
Before Royalty .....			57,000	9 058 10 <sup>3</sup> m <sup>3</sup>

\*Does not include PanCanadian's interest in Panarctic Oils Ltd., Minerals Ltd., and sulphur from the Syncrude project.

Proven reserves are those quantities of crude oil, natural gas, natural gas liquids and sulphur which analysis of geological and engineering data demonstrates with reasonable certainty to be recoverable from known oil or gas fields under existing economic and operating conditions.

Probable reserves are those additional quantities estimated to be commercially recoverable from known oil and gas fields, as a result of the effects of the future installation of secondary recovery methods or future improvements in the existing recovery mechanism.

Marketable natural gas reserves comprise gases from which certain hydrocarbon and non-hydrocarbon compounds have been removed or partially removed by processing where necessary to meet pipeline or other market specifications, and are measured at a base pressure of 14.65 psia and base temperature of 60°F.

Surface recoverable coal reserves include coal to a maximum strip ratio of 15 cubic yards of overburden to one ton of coal, to a maximum depth of 150 feet.

**SI CONVERSION TABLE**

<u>To Convert From</u>	<u>To</u>	<u>Multiply by</u>
Acre (ac) .....	hectare (ha) .....	0.404 686
Foot (ft) .....	metre (m) .....	0.304 80
Barrel (bbl) .....	cubic metre (m <sup>3</sup> ) .....	0.158 91
Thousand Cubic Feet (mcf) .....	cubic metre (m <sup>3</sup> ) .....	28.173 99*
Long Ton (l.t.) .....	tonne (t) .....	1.016 05
Short Ton (s.t.) .....	tonne (t) .....	0.907 18

\*at 15°C 101.325 kPa

Examples:

- m<sup>3</sup> reads cubic metres
- 10<sup>3</sup> reads thousand
- 10<sup>6</sup> reads million
- 10<sup>9</sup> reads billion



# Financial





PanCanadian's net income for 1978 was \$143.5 million (\$4.60 a share) an increase of \$17.0 million or 13% over the 1977 total of \$126.5 million (\$4.05 a share). Funds from operations totalled \$223.3 million (\$7.15 a share), an increase of 20% over the 1977 results of \$186.1 million (\$5.96 a share).

Gross income from all sources reached a record \$333.8 million and represents an 11% increase over the 1977 level of \$301.3 million. The increase is primarily due to higher prices received for crude oil and natural gas.

Natural gas sales increased only 1% from 1977 due to an industry-wide gas purchase reduction by transmission companies. As a result of the obligations of gas purchasers to pay for minimum contract volumes whether or not they take delivery of the gas, an amount of \$6.2 million has been recorded as deferred production income in the Company's accounts. Such amounts will be taken into income when actual production of the gas takes place.

Natural gas liquids revenue from the extraction plant at Empress and from associated activities decreased by \$8.3 million from 1977 due to a decrease in market demand for propane, and the volumetric replacement of other natural gas liquids by lower-priced ethane.

Total expenses before income tax rose to \$128.1 million, up 17% from \$109.6 million in 1977. Operating costs were up \$9.7 million primarily due to increased product and processing charges at the Empress extraction plant and increased mineral reserve taxes. Depreciation, amortization and depletion increased \$6.8 million due to additional expenditures on exploration, development and production facilities.

Income taxes decreased from \$65.2 million in 1977 to \$62.2 million in 1978. The reduction of \$16.4 million in current income taxes and increase of \$13.4 million in deferred income taxes is largely due to increased exploration expenditures and the investment in the Syncrude project.

SOURCES OF REVENUE						% Increase From 1977
	1978		1977		1977	
	Amount	%	Amount	%		
(thousands of dollars)						
Natural Gas . . . . .	\$146,408	43.9	\$125,927	41.8	16.3	
Crude Oil . . . . .	124,996	37.5	108,225	35.9	15.5	
Empress Plant Natural						
Gas Liquids Sales . . . . .	40,136	12.0	48,471	16.1	(17.2)	
Natural Gas Liquids . . . . .	9,777	2.9	8,152	2.7	19.9	
Sulphur . . . . .	1,455	0.4	1,237	0.4	17.6	
Lease Rentals . . . . .	1,806	0.5	3,269	1.1	(44.8)	
Miscellaneous . . . . .	9,184	2.8	6,065	2.0	51.4	
	\$333,762	100.0	\$301,346	100.0	10.8	

Dividends amounted to \$35.6 million or \$1.14 a share, compared to \$29.7 million or \$0.95 a share in 1977. Semi-annual payments of \$0.49 and \$0.65 a share were made in June and December, respectively.

Capital expenditures in 1978, including Syncrude and Panarctic, totalled \$341.3 million, an increase of 202% over the 1977 level of \$113.0 million. Exploration accounted for \$133.4 million of the total expenditures, an increase of 72% over 1977. Capital expenditures on plant production and other equipment rose to \$28.7 million, an increase of 74% over 1977.

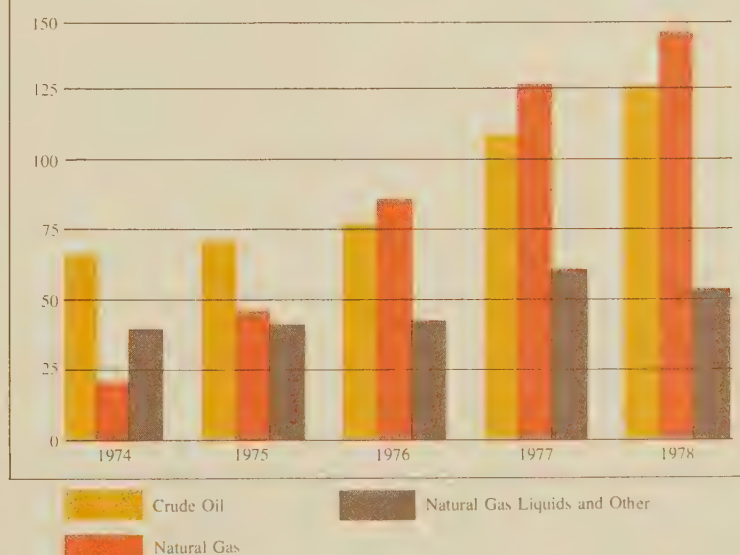
Bank borrowings of \$160.0 million were made to finance the Company's investment in the Syncrude project. The other activities carried out during 1978 were financed by cash flow from operations and working capital. At year-end, the Company's working capital amounted to \$61.9 million, compared with \$57.8 million at the end of 1977.

#### APPLICATION OF WORKING CAPITAL

	1978	1977	% Increase From 1977
(thousands of dollars)			
<b>Exploration</b>			
Land Acquisition and Retention	\$ 42,151	\$ 27,693	52.2
Geological, Geophysical and Overhead	39,443	22,140	78.2
Exploratory Drilling	50,284	24,812	102.7
	131,878	74,645	76.7
<b>Development</b>			
Acquisition of Producing Properties	—	7,890	(100.0)
Development Drilling	16,200	11,051	46.6
	148,078	93,586	58.2
<b>Production Facilities and</b>			
Other Equipment	28,657	16,444	74.3
Syncrude Project	163,046	—	100.0
	339,781	110,030	208.8
Investment in Panarctic Oils Ltd.	1,536	3,014	(49.0)
Reduction of Long-Term Debt	7,777	10,815	28.1
Dividends	35,583	29,653	20.0
Other	783	95	724.2
	\$385,460	\$153,607	150.9

#### SOURCES OF OPERATING REVENUE

Millions of Dollars





## Auditors' Report

To the Shareholders of  
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited as at December 31, 1978 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
February 9, 1979

PRICE WATERHOUSE & CO.  
Chartered Accountants



# Consolidated Statement of Income and Retained Income

FOR THE YEAR ENDED DECEMBER 31, 1978

	1978	1977
	(thousands of dollars)	
Income:		
Operating revenue .....	\$324,578	\$295,281
Interest income from affiliated company (Note 2) .....	5,313	3,930
Miscellaneous .....	3,871	2,135
	<u>333,762</u>	<u>301,346</u>
Expenses:		
Operating .....	63,708	54,039
Administrative .....	11,428	9,288
Interest on long-term debt .....	12,260	12,352
Depreciation and amortization .....	11,695	9,748
Depletion .....	29,054	24,162
	<u>128,145</u>	<u>109,589</u>
Income before income taxes .....	205,617	191,757
Provision for income taxes:		
Current .....	23,301	39,760
Deferred .....	38,860	25,451
	<u>62,161</u>	<u>65,211</u>
Net income for the year .....	143,456	126,546
Retained income at beginning of year .....	257,459	160,566
	<u>400,915</u>	<u>287,112</u>
Dividends — \$1.14 per share (1977 — 95¢) .....	35,583	29,653
Retained income at end of year .....	<u>\$365,332</u>	<u>\$257,459</u>
Earnings per share .....	<u>\$4.60</u>	<u>\$4.05</u>



# PanCanadian Petroleum Limited

## Consolidated Balance Sheet — December 31, 1978

### ASSETS

	1978	1977
	(thousands of dollars)	
Current assets:		
Cash .....	\$ 323	\$ 1,139
Deposits with affiliated company (Note 2) .....	57,604	78,998
Accounts receivable .....	68,747	53,071
Income taxes recoverable .....	11,881	—
Inventories, at average cost —		
Products .....	6,553	12,704
Materials .....	2,889	3,804
	<u>147,997</u>	<u>149,716</u>
Property, plant and equipment, at cost:		
Petroleum, natural gas and mineral properties .....	678,526	530,421
Less: Accumulated depletion .....	(171,450)	(142,369)
Plant, production and other equipment (Note 3) .....	204,688	176,720
Less: Accumulated depreciation and amortization .....	(70,696)	(60,007)
Syncrude Project (Note 4) .....	163,046	—
	<u>804,114</u>	<u>504,765</u>
Investments, at cost:		
Panarctic Oils Ltd. ....	20,728	19,192
Other .....	607	626
	<u>21,335</u>	<u>19,818</u>
Other assets:		
Drilling, reservation and other deposits .....	758	99
Unamortized debenture discount and issue expenses .....	1,341	1,536
Unamortized gas processing contracts .....	10,185	10,502
	<u>12,284</u>	<u>12,137</u>
	<u><u>\$985,730</u></u>	<u><u>\$686,436</u></u>



## LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
	(thousands of dollars)	
Current liabilities:		
Accounts payable and accrued liabilities .....	\$ 79,113	\$ 62,936
Income taxes payable .....	—	18,899
Current portion of long-term debt .....	7,028	10,065
	<u>86,141</u>	<u>91,900</u>
 Long-term debt (Note 5) .....	 271,855	 119,632
Deferred credits:		
Deferred production income .....	6,240	—
Deferred rentals .....	346	489
Deferred income taxes .....	183,034	144,174
	<u>189,620</u>	<u>144,663</u>
 Shareholders' equity:		
Capital stock —		
Authorized —		
50,000,000 shares of \$1 par value		
Issued —		
31,219,534 shares .....	31,220	31,220
Paid in surplus .....	41,562	41,562
Retained income .....	365,332	257,459
	<u>438,114</u>	<u>330,241</u>
	 <u>\$985,730</u>	 <u>\$686,436</u>

APPROVED BY THE BOARD:

*Robert W. Campbell* Director

*Jim Taylor* Director



**PanCanadian Petroleum Limited**

**Consolidated Statement of Changes**

**in Financial Position**

**FOR THE YEAR ENDED DECEMBER 31, 1978**

	<u>1978</u>	<u>1977</u>
	(thousands of dollars)	
Source of working capital:		
Net income for the year .....	<b>\$143,456</b>	\$126,546
Expenses not requiring a current outlay of funds —		
Depreciation and amortization .....	<b>11,695</b>	9,748
Depletion .....	<b>29,054</b>	24,162
Deferred income taxes .....	<b>38,860</b>	25,451
Other .....	<b>195</b>	189
Funds from operations .....	<b>223,260</b>	186,096
Long-term bank loan .....	<b>160,000</b>	—
Deferred production income .....	<b>6,240</b>	—
	<b>389,500</b>	186,096
Application of working capital:		
Petroleum, natural gas and mineral properties .....	<b>148,078</b>	93,586
Plant, production and other equipment .....	<b>28,657</b>	16,444
Syncrude Project .....	<b>163,046</b>	—
	<b>339,781</b>	110,030
Investment in Panarctic Oils Ltd. ....	<b>1,536</b>	3,014
Reduction of long-term debt .....	<b>7,777</b>	10,815
Dividends .....	<b>35,583</b>	29,653
Other .....	<b>783</b>	95
	<b>385,460</b>	153,607
Increase in working capital .....	<b>4,040</b>	32,489
Working capital at beginning of year .....	<b>57,816</b>	25,327
Working capital at end of year .....	<b>\$ 61,856</b>	\$ 57,816



# PanCanadian Petroleum Limited

## Notes to Consolidated Financial Statements

DECEMBER 31, 1978

### NOTE 1 — ACCOUNTING POLICIES:

The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries, all of which are wholly-owned.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange December 31, 1978

Other assets and liabilities — at historical rates of exchange

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation of plant, production and other equipment is being provided on the diminishing balance method at rates varying from 5% to 20% which will amortize original costs over the estimated useful lives of the respective assets except for depreciation on the gas processing plant which is provided on the straight-line basis at 4% per annum.

Unamortized debenture discount and issue expenses are being charged to income on a straight-line basis over the terms of the debenture issues.

Unamortized gas processing contracts are being charged to income on a straight-line basis over the life of the contracts.

The Company follows the allocation method of accounting for income taxes.

### NOTE 2 — DEPOSITS WITH AFFILIATED COMPANY:

Substantially all of the Company's funds which were surplus to its day to day requirements were invested in deposits of Canadian Pacific Limited. These deposits carry interest at rates at least equal to the interest rates paid from time to time by a leading Canadian Chartered bank on equivalent deposits.

### NOTE 3 — AMMONIA PLANT PROJECT:

Final negotiations are being carried out for the sale of the majority of the Company's investment in an ammonia plant project. If negotiations are successfully concluded the sale will be consummated in March 1979 and should result in the recovery of the Company's net investment in the project.

### NOTE 4 — SYNCRUDE PROJECT:

As of November 30, 1978 the Company purchased for \$160,000,000 a 5% interest in the Syncrude Project (operated by Syncrude Canada Ltd.) which extracts oil from Athabasca oil sand leases in the Province of Alberta. The operation to date is considered to be in the preproduction stage and therefore all expenditures less revenue since date of acquisition have been capitalized as part of the cost of the project.



The Company's capital commitments for 1979 for this project are estimated to be \$5,000,000.

The Alberta Energy Company Ltd. holds an option to acquire up to 20% of the existing participating interests in Syncrude. Should this option be exercised to the maximum extent, the Company's interest would be reduced to 4% with a corresponding reduction in its investment.

#### NOTE 5 — LONG-TERM DEBT:

Details of long-term debt outstanding at December 31, 1978 and 1977 are set forth hereunder:

	1978	1977
	(thousands of dollars)	
Bank loans due 1979 - 1988 .....	<b>\$195,883</b>	\$ 45,447
8 <sup>1</sup> / <sub>8</sub> % secured debentures due March 1, 1992, sinking fund payments 1979 - 1991, secured by a first mortgage upon certain producing properties .....	<b>23,500</b>	24,250
8 <sup>3</sup> / <sub>4</sub> % secured debentures due November 1, 1992, sinking fund payments 1979 - 1991, secured by a first mortgage upon certain producing properties .....	<b>24,500</b>	25,000
9 <sup>3</sup> / <sub>4</sub> % unsecured debentures due November 15, 1983 .....	<b>35,000</b>	35,000
	<b>278,883</b>	129,697
Less: Current portion .....	<b>7,028</b>	10,065
	<b><u>\$271,855</u></b>	<b><u>\$119,632</u></b>

The bank loans bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

The Company has agreed that, without the consent of the bankers, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be created that would rank prior to or pari passu with the bank loans.

With regard to the \$35,000,000 9<sup>3</sup>/<sub>4</sub>% unsecured debentures, the Company has agreed that it and its subsidiaries will not create any mortgages or other charge on their assets to secure a loan or other indebtedness in the form of bonds or other indebtedness which at the time of issue are intended to be traded on any stock exchange or publicly traded in the over-the-counter market in any part of the world unless the debentures then outstanding are similarly secured.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

(thousands of dollars)
1979 — \$ 7,028
1980 — \$ 7,465
1981 — \$27,965
1982 — \$23,965
1983 — \$70,085

#### NOTE 6 — OFFICERS' AND DIRECTORS' REMUNERATION:

During 1978 there were twelve directors and fifteen officers of whom three were also directors.

Officers' remuneration and directors' fees for 1978 amounted to \$1,290,000 and \$41,000 respectively (1977 — \$549,000 and \$38,000) none of which was paid by subsidiaries.

In 1975 the directors approved an executive incentive performance plan which was based on the Company's cumulative earnings performance and on the market price of shares for the four years ended December 31, 1978. The maximum amount of \$551,400 payable under the plan has been provided for in 1978. This amount is payable on April 1, 1979 at which time the recipients are required to purchase treasury shares of the Company at the closing market price on April 1, 1979 equal to 50% of the cash award.



# Five Year Statistical Review

(Dollar amounts in thousands except per share figures)

	1978	1977	1976	1975	1974
<b>EARNINGS</b>					
Gross Income .....	<b>\$333,762</b>	\$301,346	\$206,941	\$159,590	\$130,572
Funds from Operations .....	<b>223,260</b>	186,096	134,440	99,756	74,557
Per Share .....	<b>7.15</b>	5.96	4.31	3.20	2.39
Net Income .....	<b>143,456</b>	126,546	85,033	68,663	46,243
Per Share .....	<b>4.60</b>	4.05	2.72	2.20	1.48
<b>BALANCE SHEET</b>					
Working Capital (Deficiency) .....	<b>\$ 61,856</b>	\$ 57,816	\$ 25,327	\$ (9,625)	\$ 11,748
Property, Plant & Equipment — Net .....	<b>804,114</b>	504,765	428,327	342,957	278,626
Investments & Other Assets .....	<b>33,619</b>	31,955	29,328	25,996	23,696
Long-Term Debt .....	<b>271,855</b>	119,632	130,447	81,429	89,946
Deferred Income Taxes .....	<b>183,034</b>	144,174	118,723	101,302	89,317
<b>CAPITAL EXPENDITURES</b>					
Exploration .....	<b>\$131,878</b>	\$ 74,645	\$ 57,032	\$ 30,980	\$ 30,285
Development .....	<b>16,200</b>	18,941	14,923	13,622	9,675
Production Facilities & Equipment .....	<b>28,657</b>	16,444	45,081	38,510	9,356
Syncrude Project .....	<b>163,046</b>	—	—	—	—
Investment in Panarctic Oils Ltd. ....	<b>1,536</b>	3,014	2,876	3,155	1,764
<b>PROVEN &amp; PROBABLE RESERVES (AFTER ROYALTY)</b>					
Natural Gas (million cubic feet) .....	<b>2,683,000</b>	2,448,000	2,366,000	2,384,000	2,298,000
Crude Oil & Natural Gas Liquids (barrels) ..	<b>146,336,000</b>	152,963,000	165,851,000	185,945,000	194,493,000
Synthetic Oil (barrels) .....	<b>57,000,000</b>	—	—	—	—
Sulphur (long tons) .....	<b>2,990,000</b>	3,436,000	3,773,000	4,756,000	4,076,000
Coal (thousand short tons) .....	<b>1,748,000</b>	1,490,000	860,000	485,000	—
<b>PRODUCTION (AFTER ROYALTY)</b>					
Natural Gas Sales					
(thousand cubic feet per day) .....	<b>275,861</b>	273,036	231,691	223,623	226,285
Crude Oil & Natural Gas Liquids Production					
(barrels per day) .....	<b>32,700</b>	33,834	30,395	33,546	39,273
Empress Plant Natural Gas Liquids Sales					
(barrels per day) .....	<b>14,281</b>	12,163	9,980	9,363	11,979
Sulphur Sales (long tons per day) .....	<b>246</b>	230	143	139	218
<b>ACREAGE</b>					
Gross (acres) .....	<b>23,149,000</b>	28,905,000	30,256,000	31,793,000	39,686,000
Net (acres) .....	<b>11,566,000</b>	13,362,000	13,059,000	15,311,000	16,426,000
<b>SHARES &amp; DIVIDENDS</b>					
Number of Shares Outstanding .....	<b>31,219,534</b>	31,219,534	31,219,534	31,219,534	31,219,534
Number of Shareholders .....	<b>5,119</b>	5,363	5,905	7,170	7,492
Dividends .....	<b>\$ 35,583</b>	\$ 29,653	\$ 27,784	\$ 26,847	\$ 19,355
Per Share .....	<b>1.14</b>	0.95	0.89	0.86	0.62
Market Price Per Share — High .....	<b>38<sup>3</sup>/<sub>4</sub></b>	36	25 <sup>3</sup> / <sub>4</sub>	17 <sup>1</sup> / <sub>4</sub>	14
— Low .....	<b>30<sup>3</sup>/<sub>4</sub></b>	23 <sup>3</sup> / <sub>4</sub>	15 <sup>7</sup> / <sub>8</sub>	7 <sup>5</sup> / <sub>8</sub>	7 <sup>1</sup> / <sub>8</sub>

Valuation Day (December 22, 1971) Share Price \$15<sup>1</sup>/<sub>4</sub>



# **Subsidiary and Affiliate Companies**

## **Wholly Owned**

Blackfoot Pipelines Ltd.  
Canadian Pacific Oil and Gas of Canada Limited  
Canadian Pacific Oil and Gas Nederland B.V.  
Canadian Pacific Oil and Gas Norway A/S  
Canadian Persian Oil Limited  
PanCanadian Gas Products Ltd.  
PanCanadian Petroleum Company  
PanCanadian Petroleum (U.K.) Limited  
PanCanadian Kerrobert Pipeline Ltd.  
PanCanadian Petroleum Denmark A/S

## **Other**

Minerals Ltd. — 50%  
Panarctic Oils Ltd. — 8.59%

# **Offices**

Head Office  
2000 - One Palliser Square  
Calgary, Alberta  
T2G 0P6

United States Office  
1500 - One Houston Centre  
Houston, Texas  
77002

United Kingdom Office  
6 Arlington Street  
London, England  
SW1A 1RE

## **SHARES LISTED**

Alberta Stock Exchange  
Montreal Stock Exchange  
Toronto Stock Exchange  
Vancouver Stock Exchange

## **REGISTRAR AND TRANSFER AGENT**

Guaranty Trust Company of Canada —  
Calgary, Montreal, Toronto, Vancouver

## **BANKER**

The Royal Bank of Canada

## **AUDITORS**

Price Waterhouse & Co.  
Chartered Accountants  
Calgary, Alberta



In April, each year, PanCanadian Petroleum Limited publishes a supplementary report entitled "Financial and Operating Information." The report contains more detailed information than is possible to include in the Annual Report, and is mainly provided for the use of security analysts. Any shareholder requiring a copy may obtain one by directing a request to the Supervisor — Budgetary Control & Statistics.



# PanCanadian Petroleum Limited

P.O. Box 2850, Calgary, Alberta, Canada T2P 2S5





  
**PanCanadian**

## **INTERIM REPORT**

For The Six Months Ended  
June 30, 1978

P.O. Box 2850  
Calgary, Alberta  
T2P 2S5



## TO THE SHAREHOLDERS:

### FIRST HALF COMPARATIVE HIGHLIGHTS

#### FINANCIAL

(thousands of dollars)	1978	1977
Gross income .....	\$171,117	\$148,184
Funds from operations .....	103,554	86,223
Per share .....	3.32	2.76
Net income .....	72,084	59,437
Per share .....	2.31	1.90
Capital expenditures .....	72,658	52,588

#### PRODUCTION AND SALES

(net daily average)		
Crude oil — barrels .....	31,153	30,670
Natural gas liquids — barrels .....	2,845	2,777
Empress Plant — natural gas liquids — barrels .....	12,796	14,161
	46,794	47,608
Natural gas — million cubic feet .....	294	288

Net income for the first half of 1978 was \$72.1 million, up 21% from the previous year and funds from operations increased by 20% due to a combination of higher prices and increased oil and gas production.

Natural gas sales rose by 2% from 1977 to 294 million cubic feet per day.

Production of crude oil reached 31,153 barrels a day, an increase of 2% over the same period last year. Sales of your Company's heavy crude production, located primarily on the Bow River Pipeline system, have continued at high levels. At the recent National Energy Board oil supply and demand hearings, PanCanadian emphasized the need for continued export of such crude oil which is surplus to Canadian requirements.

During the first half of 1978, capital expenditures of \$72.7 million were 38% over the corresponding period in 1977.

The Company participated in the drilling of 216 wells, of which 66 were exploratory and 150 development. Exploratory drilling resulted in 2 oil and 29 gas wells, while the development program yielded 20 oil and 114 gas wells.

PanCanadian continued an active exploratory program in the second quarter. In the recently publicized Elmworth-Knopsick portion of the Deep Basin area in west central Alberta, interests in four parcels totalling 1,760 gross acres were acquired in June, bringing your Company's holdings in this region to 510,768 gross and 218,601 net acres. On the Elmworth trend, the Company is currently participating in a wildcat well and three more are scheduled for the third quarter of this year. In other portions of the Deep Basin, two exploratory wells in the Berland River area are awaiting evaluation. In the Alberta Foothills, an appraisal well at Findley is to be evaluated.

In the active Nisku reef play of West Pembina, Alberta, PanCanadian acquired additional holdings and now has varying interests in 193,000 acres. In this region the Company holds a 35% interest in a recent indicated Nisku oil discovery at 10-



# PanCanadian Petroleum Limited

## CONSOLIDATED FINANCIAL SUMMARY

(thousands of dollars)

	June 30	
	1978	1977
<b>Balance Sheet</b>		
Current assets .....	\$140,526	\$102,319
Current liabilities .....	70,420	61,409
Working capital .....	70,106	40,910
Property, equipment and other assets .....	590,207	494,340
	660,313	535,250
Long-term debt .....	116,569	127,072
Deferred credits .....	156,713	129,751
Shareholders' equity .....	\$387,031	\$278,427
Shares outstanding .....	31,219,534	31,219,534
	For the Six Months Ended June 30	
	1978	1977
<b>Changes in Financial Position</b>		
Source of working capital:		
Funds from operations .....	\$103,554	\$ 86,223
Other .....	100	—
	103,654	86,223
Application of working capital:		
Capital expenditures — net .....	72,658	52,588
Reduction of long-term debt .....	3,063	3,375
Dividends .....	15,294	14,358
Other .....	349	319
	91,364	70,640
Increase in working capital .....	\$ 12,290	\$ 15,583
<b>Statement of Income</b>		
Gross income .....	\$171,117	\$148,184
Operating and administrative expenses .....	35,188	35,467
Interest expense .....	5,941	6,130
Depreciation, amortization and depletion expenses .....	19,075	15,837
	60,204	57,434
Income before income taxes .....	110,913	90,750
Provision for income taxes .....	38,829	31,313
Net income .....	\$ 72,084	\$ 59,437
Per share .....	\$2.31	\$1.90

“Unaudited”



AR14

25-48-13 W5M. Production testing of this well will soon be underway. Extensive exploratory geophysics and drilling will continue throughout the year.

The aggressive exploratory program in the Central and Southern Plains of Alberta has resulted in the drilling of 27 wells of which 14 are indicated gas wells.

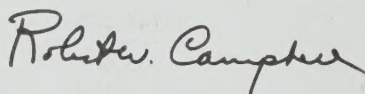
Eight Crown sale parcels, totalling 14,780 gross acres were acquired in northeastern British Columbia during the second quarter. A gas discovery was made in the Klua area and a wildcat is scheduled to commence on recently acquired acreage in the Progress area.

An interest in 35,360 acres was acquired in the Tatagwa area of southeast Saskatchewan and an exploratory well is planned.

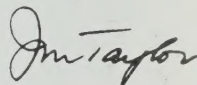
In the United States, your Company drilled 16 wells during the second quarter of which three were indicated discoveries. In Hopkins County, Texas, PanCanadian has a 25% interest in a Smackover gas discovery with a calculated absolute open test flow of ten million cubic feet daily. A 4% interest is held in a recently completed Hosston Sand gas well in Mississippi and a 25% interest in an indicated gas and condensate discovery offshore Eugene Island Block 43, in the Gulf of Mexico. A gas development well was also completed in Hansford County, Texas.

Currently drilling or testing are six wells in Texas and one each in Mississippi, Wyoming, offshore Gulf of Mexico and offshore East Coast in the Baltimore Canyon area. Your Company, together with another oil company, has signed an agreement to purchase 723,000 net acres of oil and gas leases in North Dakota, western Montana and Utah. PanCanadian has a 50% interest. In addition, 72,250 net acres were acquired in Nebraska, Kansas and Utah.

PanCanadian will establish its new corporate headquarters in a 28 storey office building to be constructed by Marathon Realty Company Limited on 9th Avenue and 1st Street S.W., Calgary. The 384 foot tower, to be known as PanCanadian Plaza, will be octagonal in shape and set at a 45 degree angle to 9th Avenue, providing a dramatic southwest exposure with a triangular open-spaced landscaped plaza at ground level. Construction is scheduled to commence in late 1978 and the building will be ready for occupancy in 1980.



Robert W. Campbell  
Chairman of the Board and  
Chief Executive Officer



J. M. Taylor  
President

Calgary, Alberta  
July 21, 1978